

Midstream Suppliers

Industry Report

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The Raymond James Guide to MLPs



Source: GulfTerra Energy Partners, L.P. and Magellan Energy Partners, L.P.

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Table of Contents

Master Limited Partnerships 101	3
Recent Institutional Ownership Legislation.....	14
Our Valuation Methodology	14
MLP Coverage Universe.....	15
AmeriGas Partners, L.P.	15
Crosstex Energy L.P.	15
Crosstex Energy Inc.	16
Energy Transfer Partners, L.P.	16
Enterprise Products Partners L.P.....	16
Ferrellgas Partners, L.P.	17
Hiland Partners, L.P.	18
Holly Energy Partners, L.P.....	18
Inergy, L.P.	19
K-Sea Transportation Partners L.P.....	19
Kinder Morgan Energy Partners, L.P.	20
Magellan Midstream Partners L.P.....	20
Martin Midstream Partners, L.P.	21
Pacific Energy Partners L.P.	22
Star Gas Partners, L.P.	22
Suburban Propane Partners, L.P.....	23
Teekay LNG Partners L.P.	23
TEPPCO Partners, L.P.	24
U.S. Shipping Partners L.P.	25
Conclusion	25
MLP Focus List.....	26

Please read disclosure/risk information on page 27 and Analyst Certification on page 28.

Master Limited Partnerships 101

In today's range-bound stock market, where can investors find an attractive yield and potential price appreciation while taking less risk than the broad equity market? We believe the answer is Master Limited Partnerships (MLPs). Even with the threat of higher interest rates, we believe certain MLPs will have less risk and should outperform both the S&P 500 and other yield-oriented investments over the next 12 months.

The purpose of this report is simply to provide an overview of MLPs for current and future investors. The report addresses many of the questions we receive on a regular basis, as well as recent changes in regulations related to institutional ownership and our views of what is to come over the next few years.

What is an MLP?

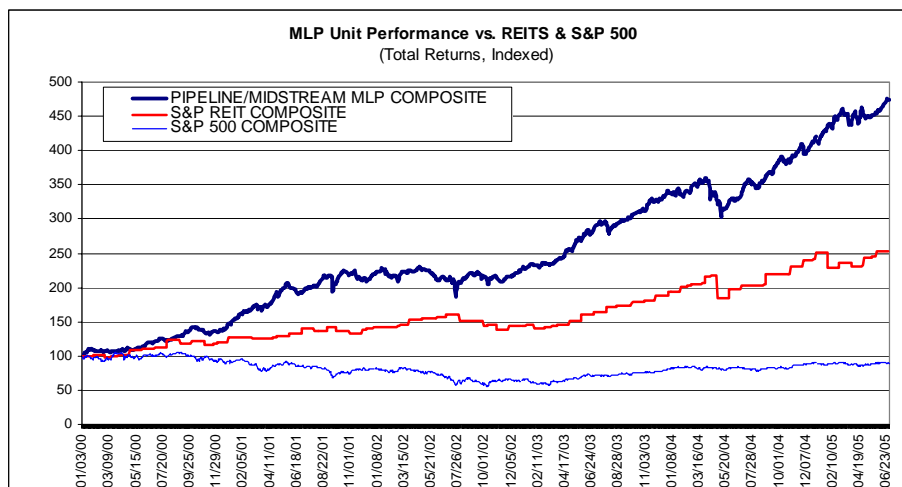
A Master Limited Partnership, or MLP, is a publicly traded partnership that receives special treatment under the U.S. tax code. Specifically, MLPs do not have to pay corporate taxes if 90% or more of gross income is considered qualifying income. Section 7704 of the tax code defines qualifying income as, *"income and gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or similar products), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy, and timber."* As a result, the vast majority of MLPs are related to energy and natural resources.

The largest benefit to this structure is that it is a tax efficient way to pass cash flows on to investors by avoiding double taxation. The MLP does not pay taxes. Instead, taxes are assessed only at the investor level.

MLPs are also different from traditional corporations in terms of ownership structure. Ownership of a partnership is divided into two parts: the general partner (GP) and the limited partners (LP). The general partner, which typically has a 2% ownership stake, manages the partnership and has unlimited liability in legal matters. The limited partners are the primary providers of capital and receive cash distributions from the partnership, but they are only liable to the extent of their investment in legal matters. The limited partners' ownership is in the form of "common units" (not "shares"), which trade publicly on stock exchanges.

How have MLPs Performed?

Midstream MLPs have significantly outperformed the S&P 500 and other yield-based investments over the past 5½ years. As shown in the graph on the following page, the Pipeline/Midstream MLP Total Return Index has increased by 374% cumulatively between January 2000 and June 2005. This compares to a negative 11% total return on the S&P 500 and a positive 153% return on the S&P Real Estate Investment Trust (REIT) Index during the same period. The performance of the indices displayed on the following page clearly shows that investors have been seeking total return investments (a combination of yield and growth) over the last few years, as the broader market has proved too risky.



Source: RJ Research.

The following table annualizes the data shown in the previous graph and compares each index's total return to the volatility of each index as measured by standard deviation. As the table shows, **MLPs have outperformed both indices on a risk-adjusted basis**, having generated by far the highest annualized total return over the past 5½ years, while also carrying the least amount of volatility.

Risk Adjusted Returns Comparison			
Annualized Data from 01/01/00 to 06/30/05			
	S&P 500	S&P REIT	RJF MLP
	Index	Index	Index
Total Return	-2.07%	18.37%	32.69%
Standard Deviation (Risk)	19.5%	14.6%	12.5%
Total Return per unit of Risk	-0.11	1.26	2.62

Source: FactSet and RJ Research

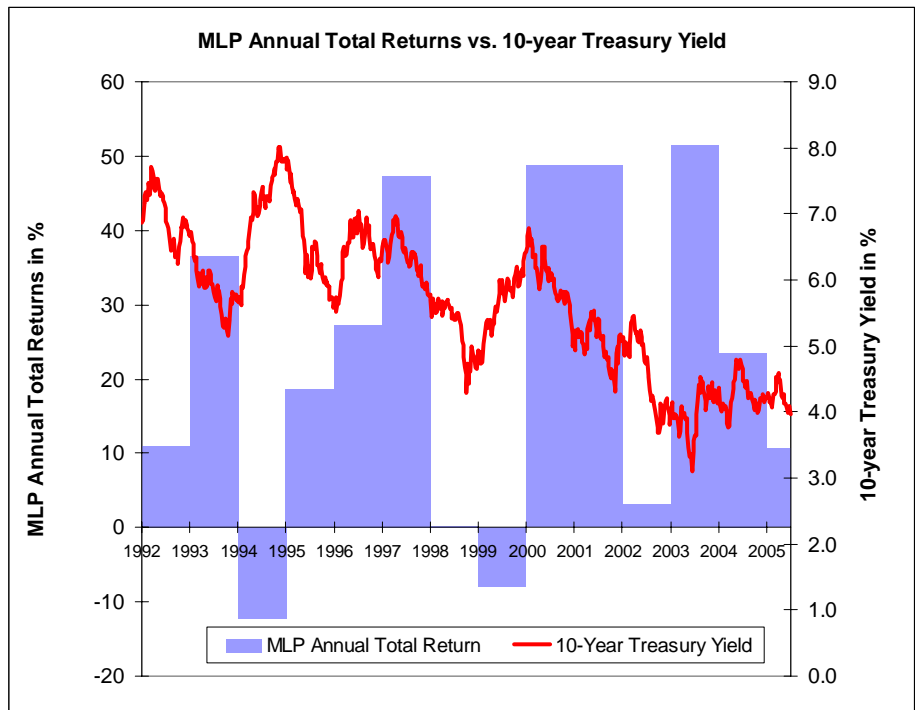
We believe the current fundamentals of the group should continue to make the sector attractive, as volume growth and acquisition activity are still very strong. As a result, we continue to expect superior performance out of the MLP sector. Sure, 33% annualized total returns are probably not sustainable, but double-digit returns are likely, even if the broader market continues to display significant volatility.

What About Interest Rate Sensitivity?

Many investors are concerned about a rising interest rate environment and its impact on the MLP sector, and rightly so. As with all yield-based investments, MLPs have a certain degree of interest rate risk. In fact, movements in the 10-Year Treasury account for ~64% of the variability in returns of both pipeline/midstream and propane MLPs. So, as the yield on the 10-Year increases, one would expect the yield on MLPs to increase (and unit prices to decrease).

This relationship can be illustrated by negative MLP returns during the last two interest rate tightening cycles. Between February 1994 and February 1995, the Fed Funds rate increased from 3.0% to 6.0%, and the yield on the 10-Year Treasury (“10-yr”) increased from 5.9% to 7.7%. The six MLPs that were publicly traded during this period generated total returns of -7.66% on average. Again, between June 1999 and May 2000, interest rates dramatically rose as the Fed Funds rate increased from 4.75% to 6.5% and the yield on the 10-yr increased from 5.8% to 6.4%. During this time period, there were 11 publicly traded midstream MLPs and four propane MLPs. The midstream group generated average total returns of -4.75%, while the propane group generated average total returns of -7.52%.

In the following graph, we have compared annual total returns of the Pipeline/Midstream MLP Index versus the yield of the 10-Year Treasury. This shows that MLPs tend to have flat to slightly negative returns as interest rates and competitive yields increase. However, during a flat or declining rate environment, MLPs typically perform very well.



Source: RJ Research.

Distribution Growth is a Key Factor that Offsets Negative Unit Price Performance in a Rising Interest Rate Environment

Though MLP unit prices typically move inversely to interest rates, there is one factor that can mitigate unit price declines – distribution growth. For example, Enterprise Products Partners posted a total return of 20.17% between June 1999 and May 2000 due to strong distribution growth of 16.67%. Conversely, those partnerships with zero distribution growth tend to perform the worst. The table on the following page shows the 15 midstream and propane MLPs that were trading during the June 1999 to May 2000 period and their respective distribution growth rates and total returns.

**Distribution Growth and Total Returns
in a Rising Interest Rate Environment
(June 1999 - May 2000)**

<u>Partnership</u>	<u>Ticker</u>	<u>Distribution Growth</u>	<u>Total Returns</u>
TC Pipelines	TCLP	0.00%	-24.51%
Northern Border Partners	NBP	6.56%	-17.42%
Heritage Propane Partners	ETP *	0.00%	-16.36%
Kaneb Pipe Line Partners	KPP	0.00%	-14.28%
Ferrellgas Partners	FGP	0.00%	-11.87%
Star Gas Partners	SGU	0.00%	-11.80%
AmeriGas Partners	APU	0.00%	-10.98%
TEPPCO Partners	TPP	5.26%	-9.77%
Enbridge Energy Partners	EEP	0.00%	-7.12%
Plains All American Pipeline	PAA	0.00%	-2.15%
Buckeye Partners	BPL	9.09%	2.86%
Suburban Propane Partners	SPH	2.44%	4.58%
GulfTerra Energy Partners	GTM**	2.38%	7.77%
Kinder Morgan Energy Partners	KMP	21.43%	8.56%
Enterprise Products Partners	EPD	16.67%	20.17%

* Heritage Propane merged with Energy Transfer Partners in early 2004

** GulfTerra Energy Partners merged with Enterprise Products Partners in Oct. 2004

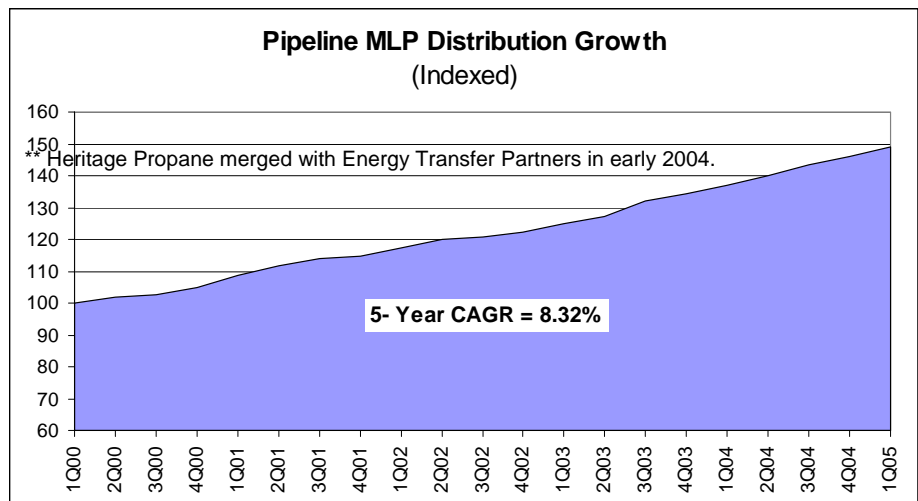
Source: RJ Research, Company Filings, and Fact Set.

Based on the relationship between distribution growth and total returns, it should be no surprise that we highly recommend partnerships with a strong growth outlook – even in a rising interest rate environment. Please see the section entitled “MLP Coverage Universe” for details on our favorite growth partnerships.

**Midstream MLPs
have a Strong
History of
Distribution Growth**

Notice in the following graph that Pipeline/Midstream MLPs have a history of growing distributions to common unitholders. Over the past five years, the Pipeline/Midstream MLP universe has increased distributions at a compound annual growth rate (CAGR) of 8.32%. Over the next few years, we estimate this growth will continue in a range between 6% and 8% on average. This type of distribution growth is a key factor that offsets negative unit price performance in a rising interest rate environment.

The Pipeline/Midstream MLP Universe has Increased Distributions at a Compound Annual Growth Rate (CAGR) of 8.32%



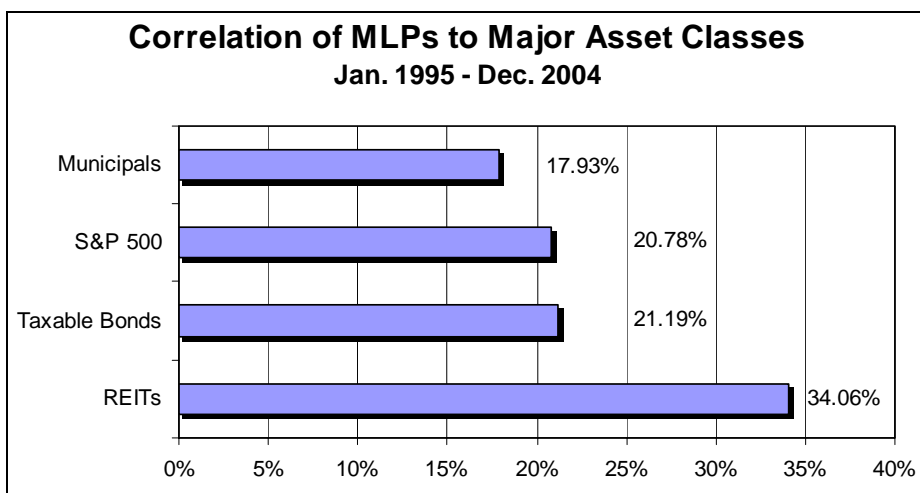
Source: RJ Research.

However, the propane MLP group does not have a great track record for increasing distributions, which explains why the group trades at higher average yields. Of the five propane partnerships we cover, two have never increased distributions and one partnership recently increased its distribution for the first time since going public.

Where do MLPs fit in an Investor's Portfolio?

An MLP is a low-risk, income-oriented investment, providing both an attractive yield and potential unit price appreciation. Since returns are based mostly on cash distributions, MLPs inherently carry a lower risk profile than the overall market. As a result, MLPs provide a relatively stable foundation for an investor's portfolio, especially during periods of uncertainty.

In addition to stability, MLPs can diversify and enhance returns for lower-risk, income-oriented portfolios that contain REITs and municipal and taxable bonds since they have a fairly low correlation to these asset classes (as well as the S&P 500), as shown in the table below.



Source: RJ Research (REITs based on Morgan Stanley REIT Index; Muni Bonds based on LB Municipal Bond Index; Taxable Bonds based on LB Aggregate Bond Index).

How are MLPs and their Unitholders Taxed?

MLPs provide tax advantages that most other investment vehicles do not. First, MLPs generally do not pay corporate taxes, so investors avoid double taxation. Income generated by the MLP is taxed only at the unitholder level, while traditional companies pay corporate income taxes *and* their shareholders pay taxes on dividends received.

Second, MLP distributions are generally 75% to 95% tax deferred until the unit is sold. As a result, yearly income tax applied to an MLP distribution will be less than the tax applied to an equity dividend that offers a similar pretax yield. In the example on the following page, the traditional equity and the MLP both have an annual cash payment of \$2.00. However, the MLP's annual after-tax yield is higher than the traditional equity dividend yield because 80% of the income tax is deferred until sold, while the equity dividend is taxed at 15% in the year in which it is received.

	Equity	MLP
Distribution	\$2.00	\$2.00
Tax	\$0.30	\$0.14
After Tax Income	\$1.70	\$1.86
After Tax Yield	8.5%	9.3%

Assumes \$20 price, 15% equity dividend tax, and 35% tax on MLP distribution.

Taxes on the deferred portion of the distribution will be taxed as ordinary income, but the majority of these taxes are paid when the unit is sold, rather than in the year in which the distribution is received. This differs from an equity investment where taxes are paid each year on the full amount of the dividend.

How Does the Tax Deferral Work?

Although distributions are paid in cash, each partnership unit is entitled to its fair share of the non-cash deductions associated with the business. These non-cash deductions include items like depreciation and amortization. The portion allocated to each partnership unit reduces taxable income on the distribution by an equal amount. In most cases, a new MLP issue will have greater than 80% of its cash distributions allocated as tax-deferred. That means for every dollar of cash received, only 20 cents is taxed at the unitholder's ordinary income rate. This is one of the most beneficial aspects of owning MLP units.

What are the Tax Implications when an MLP Unit is Sold?

While minimal taxes are paid as an investor holds units of an MLP, both ordinary income and capital gains taxes will be paid when an investor sells his/her units. Because the unitholder enjoyed the benefit of deducting non-cash items, like depreciation, from the distributions, taxes on the cumulative amount of the deductions must be paid when the unit is sold. These taxes are paid at the ordinary income tax rate of the unitholder. This is called "recapture" of ordinary income. Any amount received above the original basis of the unit (the price paid for the unit when it was initially acquired) is taxed as a capital gain.

For example, say a person buys an MLP unit for \$20.00 and receives an annual 10% distribution that has a tax deferral of 80%. Each year, the unitholder receives \$2.00, defers tax on \$1.60 (80% x \$2.00), and pays ordinary income tax on \$0.40. At the end of year three, suppose the unitholder sells the unit for \$23.00. The capital gain would be \$3.00 (\$23.00 - \$20.00), and the amount allocated to the unitholder's ordinary income would be \$4.80 (\$1.60 per year x three years). **Note that because of this feature, the MLP is especially attractive to individuals that will knowingly move into a lower tax bracket in the near future because of retirement or a job change.** While the tax calculation above may seem complicated, the reporting requirements are actually fairly simple.

How do I Keep Track of my Annual Distributions and the Amount of Tax-Deferred Income?

The general partner of the MLP is required to provide Form K-1 to each unitholder on an annual basis. Like Form 1099, which provides information on interest and dividend income, Form K-1 summarizes the necessary information for tax preparation. Most MLPs distribute K-1s in February or early March, and many have automated the process so that the information is available for download on their Internet sites.

What Happens upon the Death of a Unitholder?

Like inherited stock, inherited MLP units receive a “step-up” in basis upon the death of the owner. For estate tax purposes, the value of the unit is its fair market value, and that becomes the new basis for the heir going forward. Any capital gains or recapture of ordinary income is eliminated, which makes MLP units an excellent vehicle for estate tax management.

What Kinds of Companies use an MLP Structure?

MLPs are best suited for companies with predictable cash flows that need relatively small amounts of reinvestment or maintenance capital spending. Currently, there are ~35 publicly traded MLPs in the energy sector, most of which are in midstream “tolling” type businesses such as pipelines, storage, gas processing, propane distribution, and NGL (natural gas liquids) fractionation.

Why did Companies put Assets into MLPs?

In the late 1980s, many large energy companies found that they had enormous amounts of capital tied up in cash-generating assets such as pipelines. Since the income from those assets met the definition of qualifying income, energy companies sought to monetize those assets and create a more efficient capital structure for their ownership in these assets. Placing those assets into a publicly traded partnership structure enabled the owners to be compensated for those assets and focus on their core competencies. In addition, because of their tax structure, MLPs have a lower cost of capital, which makes them highly competitive in the acquisitions arena. Typically, an MLP can pay a higher price than other bidders for an asset and still have the acquisition be accretive for unitholders.

Are There More MLP Assets to Come?

We definitely think so. By spinning out pipeline and other tolling-type businesses, the parent company is able to accelerate the return on its investment – receiving cash upfront – and is able to re-deploy that cash flow into other core assets. The GP interest allows the parent to maintain operational control of the assets and still receive a portion of the cash flows generated. As a result, growth opportunities for midstream MLPs will likely be far more exciting than the 1% or 2% long-term growth expected in the overall midstream energy sector.

What is Distributable Cash Flow?

Typically, MLPs generate substantial amounts of cash flow over and above the amount needed to maintain operations and service debt. This excess cash flow is called distributable cash flow, which is the amount of cash available for distribution to the partners. Specifically, distributable cash flow is calculated as follows:

$$\begin{aligned} \text{Distributable Cash Flow} &= \text{Net income} \\ &+ \text{Depletion, depreciation, and amortization} \\ &- \text{Maintenance capital expenditures} \\ &- \text{Minority interests} \end{aligned}$$

Changes in working capital and cash reserves may also affect distributable cash flow. Distributions to the unitholders are typically specified by the GP, which makes distribution coverage an important factor when valuing MLPs. Although distributions, like dividends, are not guaranteed, the GP is highly incentivized to maximize distributions and will usually pass as much of this cash flow as possible to the unitholders. However, the GP may instead decide to use some cash to pay down debt or to finance various capital projects or acquisitions.

What are the Factors that Affect Distributable Cash Flow?

Although the cash flow streams for most MLPs are highly visible, a number of factors can cause distributable cash flow to vary from year to year. For mid-stream energy MLPs, those factors include: (1) Volume, (2) Price, (3) Costs, and (4) Debt.

Volume

Volume is one of the most critical variables of many MLP cash flow streams because most energy-related MLPs operate “tolling” or fixed-fee transportation businesses. To sustain and improve volumes, an MLP must have an ample supply of product, as well as capacity to deliver that product to areas with consistent demand.

Price

Regulation prevents some pipeline operators from significantly raising prices/tariffs without justification. In other words, the federal government allows these operators a certain maximum rate of return on the asset over the cost of operation. However, the liquids pipeline industry has moved away from the traditional cost of service rate and toward an indexed methodology. Tariffs are now adjusted annually and tied to the change in the producer’s price index (PPI). This regulation allows management to aggressively manage costs without having to share cost savings with shippers. Earnings, cash flows, and returns have risen in recent years as management of these types of assets have found ways to both reduce costs and increase volumes while minimizing capital investments.

Operating Costs

Operating efficiency is imperative for an MLP. Those that are able to control costs and streamline operations will generate stronger cash flows. While volumes and revenues are important, cost rationalization can be an effective way for an MLP to increase distributions.

Debt

Debt levels, and the resulting interest expense, have a direct impact on the amount of cash available for distribution. MLPs with higher debt levels have lower financial flexibility, which could limit the partnership’s ability to make accretive acquisitions. However, most growth-oriented MLPs finance their acquisitions with a combination of equity and debt, with the intention of keeping debt levels relatively stable. A partnership will often issue additional equity shortly after a major acquisition in order to bring its debt back down to pre-acquisition levels.

How is the General Partner Incentivized to Grow the Distribution?

MLP management teams are strongly incentivized to increase quarterly distributions to unitholders. Under the MLP structure, management is represented by the GP interest, which typically owns 2% of the MLP. Even though the equity stake of the GP is small, tiered distribution splits encourage the GP to operate and grow the partnership efficiently. At various per-unit distribution targets, the GP is entitled to a greater portion of excess cash flow. This structure aligns the interests of the GP with the common unitholders.

For example, when an MLP initially goes public, common unitholders receive a minimum quarterly distribution (MQD). Typically, the GP is allocated a pro rata 2% share of the total distribution. However, as the partnership grows and distributions to the common unitholders increase, the GP is allocated a larger percentage of the **incremental** distributable cash, which is normally capped at 50%. This is referred to as the general partner’s “incentive distribution rights” (IDRs). A hypothetical example of how incentive splits work follows.

Distribution Schedule		% Split		Incremental Distributions	
		L.P.	G.P.	L.P.	G.P.
Tier 1	up to \$1.00	98.0%	2.0%	\$1.00	\$0.02
Tier 2	\$1.01-\$2.00	85.0%	15.0%	\$1.00	\$0.18
Tier 3	\$2.01-\$3.00	75.0%	25.0%	\$1.00	\$0.33
Tier 4	> \$3.00	50.0%	50.0%	\$1.00	\$1.00
Total				\$4.00	\$1.53
% of Total Distribution				72%	28%

Source: RJ Research.

At the top end of the first tier, the limited partners receive \$1.00 per unit, which represents 98% of the total distribution. The general partner receives \$0.02 per unit, or 2%, for a total distribution between the LP and GP of \$1.02.

In Tier 2, the LP receives an additional \$1.00, representing 85% of the total distribution, while the GP receives 15%, or \$0.18. At this level, the LP receives a total of \$2.00 per unit and the GP receives \$0.20 per unit.

In Tier 3, the LP receives another \$1.00 per unit, for a total of \$3.00. At this level, the GP receives 25% of the total distribution, which totals \$0.33 per unit. The total distribution to the GP at this level is \$0.53 per unit.

Tier 4 is also known as “high splits,” where the LP and the GP each receive 50% of the total distribution. At this level, both the LP and the GP receive an incremental distribution of \$1.00. The total cash distribution for the LP in Tier 4 is \$4.00 per unit, while the GP receives \$1.53.

How do Subordinated Units Work?

Subordinated units act as a buffer to the common units if distributable cash flow falls short of covering the MQD paid to the total number of units outstanding. When an MLP is taken public, total units outstanding will be made up of both common units and subordinated units. The common units are sold to the public, while the issuer holds the subordinated units. By definition, subordinated units are not entitled to distributions until the common unitholders are paid. During the subordination period, the common units have the right to receive distributions in an amount equal to the MQD plus any unpaid distributions from prior quarters, before any distributions are paid to the subordinated units. These units are gradually converted into common units on a one-to-one basis as certain predetermined performance guidelines are met. The purpose of the subordinated units is to increase the likelihood that there will be cash distributions available to the common units.

Should MLP Units be held in an IRA or Other Tax-Exempt Account?

One of the most attractive features of MLP income is that it is already largely tax-deferred, so there is no need to put it into an IRA to receive the tax benefit. Buying MLPs in an IRA would be similar to buying tax-free municipal bonds in an IRA – you would not benefit from the benefit. The most compelling reason, however, is that IRAs are subject to federal income tax on unrelated business taxable income, or “UBTI.” UBTI is income earned by a tax-exempt entity (such as an IRA) that does not result from tax-exempt activities. **Income** over \$1,000 per year from MLPs is classified as UBTI and is, therefore, subject to federal tax. Note that income in this situation is considered the *taxable* portion of the distribution. For example, if an individual owned 3,000 units of an MLP inside of an IRA and it paid a distribution of \$2.00 per unit, which was 80% tax-deferred (or 20% taxable in the current year), income would total \$1,200 ($\$2.00 \times 3,000$ units \times 20% taxable portion). In this scenario, taxes would be payable on \$200 of income (the amount above the \$1,000 limit).

To avoid this potential tax issue in IRAs and pension accounts, there are MLP substitutes known as “i-units” (the “i” stands for “institutional”), which do not produce UBTI and can be held in IRAs without penalty. I-units are essentially the same as MLP units, except distributions are paid in stock instead of cash. As a result, the cost basis of the initial investment remains the same but is spread over more units, much like a stock split. After a one-year holding period, all gains are considered long-term capital gains for tax purposes. There are currently only two i-units available – Kinder Morgan Management LLC (KMR/\$48.15) and Enbridge Energy Management LLC (EEQ/\$52.45).

How do I Know Which MLP to Buy?

Like all industries, MLPs have their own unique set of valuation metrics. Since MLPs often distribute cash to unitholders in excess of earnings, the traditional earnings per share metrics do not apply well to an MLP. Instead, we focus on the following metrics in valuing a company: distribution coverage ratio, debt-to-cap ratio, internal growth rates, and management’s track record of investing capital at attractive returns.

**Distribution
Coverage Ratio**

The Distribution Coverage Ratio is calculated by dividing distributable cash flow per unit by *actual* per unit distributions paid to unitholders. The Pipeline MLP universe has an average coverage ratio of 1.0 to 1.1x, while Propane MLPs typically carry a higher coverage ratio – up to 1.3x – due to their sensitivity to weather. Higher coverage ratios provide a layer of safety since it gives the partnership a “cushion” in paying the distributions. Further, a higher coverage ratio gives management additional room to raise the distribution to unitholders.

**Debt-to-
Cap Ratio**

The Debt-to-Capitalization, or “Debt-to-Cap”, ratio measures the percentage of a partnership’s total capitalization that is accounted for by debt. It is simply calculated as:

$$\text{Debt-to-Cap} = \text{Long Term Debt} / (\text{Long Term Debt} + \text{Equity})$$

Historically, Pipeline MLPs have had an average debt-to-cap ratio of ~50%, while Propane MLPs have averaged around 68%. It is not uncommon to see a partnership’s debt-to-cap ratio increase significantly with debt-financed acquisitions. However, management often raises equity shortly thereafter to pay off the debt associated with the acquisition and bring the ratio back to normal.

**Internal
Growth Rates**

Internal growth rates are important because they show management’s ability to increase earnings and distributions organically without having to make acquisitions. We like partnerships that have an internal growth rate of 3% to 5%.

**Investing
Capital**

As mentioned previously, there has been a high level of acquisition activity over the past five years, and there is no sign that it will let up in the near future. However, a partnership must make sure that it pays an appropriate price for acquisitions. In the Pipeline MLP universe, assets are typically acquired at a price of 8x to 9x EBITDA. In the Propane universe, the average is in the 5x to 6x EBITDA range. Overpaying for acquisitions can be very detrimental to partnerships and could even lead to a decline in per unit cash flows. Over the past few years, this has not been a problem as midstream acquisition multiples have been relatively stable and most transactions have been accretive to unitholders.

If you combine a high internal growth rate with successful, accretive acquisitions, you have all the makings of a very strong company that can consistently grow distributions.

Recent Institutional Ownership Legislation

The American Jobs Creation Act, which was signed into law on October 22, 2004, contains a provision that lifted some of the restrictions on institutional ownership of MLPs. Mutual funds are required to generate 90% or more of their income from qualified sources or they could possibly lose their regulated investment company tax status. Prior to the enacting of this law, MLPs were not considered as a source of qualified income because no publicly traded MLPs existed when the list of qualified sources was made. The new legislation added MLPs to the list of qualified income sources. As such, mutual funds are now free to invest in MLPs as long as the investments do not total more than 25% of a fund's assets and a fund does not own more than 10% of a single partnership.

While mutual funds are now allowed to invest in MLPs, in our experience, institutions are still concerned about the timeliness of receiving a K-1 for tax reporting purposes. As discussed earlier in the report, MLPs issue a K-1 to unitholders (rather than a 1099) and are not held to the same January 31 deadline that mutual funds have for issuing 1099s to their investors. As a result, the K-1s are not distributed until after January 31 – in most cases, well after that date (typically late February to early March) – which has created problems for mutual funds that must issue 1099s to their shareholders by the January 31 deadline.

Our Valuation Methodology

The two primary drivers of MLP unit prices are movements in the yield of the 10-year Treasury and a given partnership's distribution growth rate. As previously mentioned, the 10-year Treasury accounts for ~64% of the variability of returns in our Pipeline/Midstream and Propane MLP indices, though distribution growth also has a major role. As a result, we use a blended average of two distinct methodologies – yield-spread to the 10-Year Treasury and our dividend discount model.

Since mid-1992, the pipeline/midstream MLP group has traded at an average spread of 245 basis points to the 10-Year Treasury, while the propane group has traded at a spread of 437 basis points on average. In our analysis, we arrive at a target spread to the 10-Year Treasury for a particular partnership by adjusting the historical spread based on factors including expected distribution growth and variability (i.e. risk) of cash flows. As of this writing, our base assumption for the yield of the 10-Year Treasury is 4.25%.

Our dividend discount valuation approach is very straightforward – we simply discount our actual distribution estimates for the next three fiscal years at a rate commensurate with broad market expectations and the riskiness of cash flows for each respective partnership. Our current discount rates for our coverage universe range from 8% to 10%.

In the following section (“MLP Coverage Universe”), we discuss each of the partnerships that we cover and include our valuation metrics for our Outperform and Strong Buy-rated partnerships.

MLP Coverage Universe

AmeriGas Partners, L.P.
(APU/\$32.51/
Market Perform)

AmeriGas is the nation's largest marketer of propane, propane equipment, and related services, operating in nearly 50 states. The partnership serves approximately 1.2 million residential, commercial, industrial, agricultural, and motor fuel customers from approximately 650 district locations.

In 2005, the partnership has completed acquisitions that will add 8 million gallons on an annualized basis. In addition, AmeriGas has divested eight locations during the year that failed to meet management's expectations in terms of return on investment. Management has also increased its focus on retaining its existing customer base by implementing new customer service and sales training for its employees as well as launching several new marketing programs to support the sales force. Overall, we are becoming more encouraged by the fact that 1) Amerigas has generated strong cash flows and contained operating expenses during warm quarters, 2) they entered the grilling season with 10% more locations for its tank exchange business (PPX), and 3) it increased its distribution for the first time since going public in 1995. While we are becoming more positive on the partnership, we would like to see a bit of a track record of distribution growth before upgrading AmeriGas.

Crosstex Energy L.P.
(XTEX/\$39.30/Strong Buy)

Crosstex Energy L.P., headquartered in Dallas, Texas, is a publicly traded master limited partnership focused on the midstream natural gas industry with assets primarily located along the Gulf Coast in Texas, Mississippi, Louisiana, and Alabama. Crosstex has two segments of operation, Midstream and Treating. The partnership's Midstream division focuses on the gathering, processing, transmission, and marketing of natural gas. The Treating division focuses on the removal of impurities associated with the production of natural gas to meet pipeline quality specifications.

We expect Crosstex to experience rapid growth over the next few years due to three internal projects: (1) the construction of the North Texas Pipeline, (2) the North Louisiana Intrastate Gas Pipeline (North LIG) extension, and (3) the South LIG expansion. The North Texas Pipeline will transport natural gas from the Barnett Shale and is expected to be completed and begin generating cash flows by January 2006. The North LIG extension is a two-stage project with Kinder Morgan that is anticipated to be completed between June 2006 and mid-2007, depending on the FERC approval process. The pipeline will connect the Carthage Hub in East Texas to the LIG pipeline system. Finally, the South LIG expansion has not been announced yet in terms of a specific timeline and scope, but we estimate the project will likely add to cash flows by mid-2007. Overall, these projects could potentially generate \$100 million in "base-case" cash flows.

Our price target for Crosstex Energy L.P. is **\$52.00**, based on the valuation metrics shown below.

XTEX Valuation Summary	
DDM @ 8%	\$ 57.25
Yield Spread @ 50 bps	\$ 46.63
Average	\$ 51.94

**Crosstex Energy Inc.
(XTXI/\$51.25/Strong Buy)**

Crosstex Energy Inc. owns the general partner, a 54.3% limited partner interest, and the incentive distribution rights of Crosstex Energy L.P. The C-corp structure of XTXI increases the number of potential investors and reduces tax-filing difficulties by issuing a 1099 form just like any other dividend-paying security, which is delivered much earlier during tax season. The company holds no other assets outside its significant ownership position in the partnership.

Our price target for Crosstex Energy, Inc. is **\$62.00**, based on our dividend discount model, which discounts our 2005 – 2007 distribution estimates at 8% and assumes 3% constant growth thereafter.

**Energy Transfer
Partners, L.P.
(ETP/\$36.16/Outperform)**

Energy Transfer Partners, L.P. is a publicly traded partnership owning and operating a diversified portfolio of energy assets. The partnership's natural gas operations include approximately 4,500 miles of natural gas gathering and transportation pipelines with an aggregate throughput capacity of 2.5 billion cubic feet of natural gas per day, with natural gas treating and processing assets located in Texas, Oklahoma, and Louisiana. The partnership is the fourth largest retail marketer of propane in the U.S., serving more than 650,000 customers from over 300 customer service locations in 31 states, extending from coast to coast, with concentration in the western, upper-mid-western, northeastern, and southeastern regions of the U.S.

Energy Transfer remains one of our top picks in the MLP space due to its ability to identify and complete strategic acquisitions and internal projects that result in distribution growth to unitholders. We expect the partnership's acquisition of the Houston Pipeline (HPL) system and its substantial internal projects (Ft. Worth Basin expansion, North Ft. Worth Basin Loop, and the Bethel salt dome expansion) to generate significant cash flows going forward. In addition, Energy Transfer continues to aggressively grow its Heritage Propane business, adding nearly 19 million gallons during fiscal 2005 through nine acquisitions. Overall, we ultimately believe these projects and acquisitions will result in ~10% distribution growth for fiscal 2006.

Our price target for Energy Transfer is **\$43.50**, based on the valuation metrics shown below.

ETP Valuation Summary	
DDM @ 8%	\$ 46.08
Yield Spread @ 100 bps	\$ 40.00
Average	\$ 43.04

**Enterprise Products
Partners L.P.
(EPD/\$27.17/Strong Buy)**

Enterprise Products Partners L.P. is one of the largest publicly traded energy partnerships and is a leading North American provider of midstream energy services to producers and consumers of natural gas, NGLs, and crude oil. Enterprise transports natural gas, NGLs, and crude oil through 31,000 miles of onshore and offshore pipelines and is an industry leader in the development of midstream infrastructure in the Deepwater Trend of the Gulf of Mexico. Services include natural gas transportation, gathering, processing, and storage; NGL and propylene fractionation (or separation), transportation, storage, and import and export terminaling; crude oil transportation and offshore production platform services.

Enterprise should continue to experience steady growth from its NGL business as the Mad Dog and Holstein fields ramp up production and the Mid-America and Seminole system should post strong volumes due primarily to growth in the Rockies. The onshore natural gas business should see solid growth due to the substantial increase in production from the Barnett Shale, which is causing the North Texas Pipeline (50/50 ownership with Energy Transfer) to reach its capacity limits. Likewise, Enterprise has targeted a few expansion projects in the region. We expect the offshore segment will benefit from increased volumes on the Cameron Highway as the K-2 and K-2 North fields being production later this year. Finally, the petrochemical segment should see long-term demand growth from refineries due to the phasing out of MTBE over time. Overall, we believe Enterprise's current discount to the MLP group is unwarranted given the partnership's strong cash flows and visible growth projects, which should add value well into 2007.

Our price target for Enterprise is **\$37.00**, based on the valuation metrics shown below.

EPD Valuation Summary	
DDM @ 8%	\$ 38.99
Yield Spread @ 100 bps	\$ 34.67
Average	\$ 36.83

**Ferrellgas Partners, L.P.
(FGP/\$21.50/Underperform)**

Ferrellgas Partners, based in Liberty, Missouri, is the second largest retail marketer of propane in the United States, representing approximately 11% of the retail propane market. The partnership has 564 retail outlets, serving more than 1 million residential, industrial/commercial, and agricultural and other customers in 45 states. Ferrellgas' operations primarily include the retail distribution and sale of propane and related equipment and supplies and extend from coast to coast with concentrations in the midwest, southeast, southwest, and northwest regions of the country.

Warmer than normal weather during the winter months has negatively impacted Ferrellgas recently, but the partnership is taking steps to improve operations going forward. Specifically, the Renaissance operating platform has taken roughly four years and \$60 million to implement but is on the verge of being completely rolled out. The operating system will put the entire organization on one operating system that will allow for much better control over everything from pricing to delivery schedules. In the locations where the system is already operating, the partnership has realized 10% higher margins, 15% reduction in hours by drivers, and 20% reduction in customer service hours. All-in, management believes the new operating system will result in cost savings of \$30 million or more during 2006 (excluding any potential impact from higher margins). Additionally, Ferrellgas acquired Blue Rhino in April 2004 to provide the partnership with some cash flow diversification (non-heating season) and a sizable presence in the growing tank exchange market. The initial results from that acquisition look very promising with cylinder exchange transactions up 23% year-over-year. Overall, we believe that Ferrellgas is poised to turn the corner, from a coverage perspective, in 2006, and the Renaissance platform is driving both cost reductions and net customer gains. However, we expect that any excess cash above the required distribution will be used to reduce debt. Therefore, we don't see any near-term catalysts that would result in distribution growth for unitholders.

Hiland Partners, L.P.
(HLND/\$35.58/Outperform)

Hiland Partners, L.P., headquartered in Enid, Oklahoma, is a publicly traded master limited partnership engaged in gathering, compressing, dehydrating, treating, processing, and marketing natural gas. The partnership also fractionates NGLs and provides air compression and water injection services for oil and gas secondary recovery operations. Hiland's operations are located primarily in the mid-continent and Rocky Mountain regions of the United States.

Most recently, Hiland announced in May that it has exercised the exclusive two-year option to purchase the Bakken system from its predecessor, Hiland Partners LLC. The Bakken system is located in eastern Montana and consists of 200 miles of natural gas gathering pipelines, one processing plant, two compression stations, and a fractionation facility. The acquisition is estimated to add about \$10 million in EBITDA. In addition, the partnership is undergoing a \$20 million expansion of its Badlands system in North Dakota, which is expected to be completed by the end of the first quarter 2006. We expect NGL production to increase substantially from roughly 370 barrels per day to 2,000 barrels per day, which should result in incremental cash flow of approximately \$3 million during 2006. Overall, we believe Hiland Partners will thrive in the coming years due to its exposure to increases in commodity prices, visible acquisition opportunities, internal growth projects, and a very conservative capital structure.

Our price target for Hiland is **\$41.00**, based on the valuation metrics shown below.

HLND Valuation Summary	
DDM @ 9%	\$ 41.35
Yield Spread @ 150 bps	\$ 40.00
Average	\$ 40.67

Holly Energy Partners, L.P.
(HEP/\$42.87/Outperform)

Holly Energy Partners, L.P. is a publicly traded master limited partnership formed by Holly Corporation (HOC/\$46.20) to own and operate a system of refined product pipelines and distribution terminals in west Texas, New Mexico, Utah, and Arizona. Revenues are generated by charging tariffs for refined products that are transported, stored, and distributed through its pipelines and terminals. Assets located in growing markets and a 15-year minimum revenue commitment with Holly Corporation support stable partnership cash flows.

Most recently, Holly Energy Partners exercised its option on Holly Corporation's intermediate product pipelines. The two intermediate product pipelines transport crude, feedstocks, and partially refined products between Holly Corporation's Lovington and Artesia facilities in New Mexico with an aggregate capacity of 84,000 barrels per day. The partnership paid \$81.5 million for the assets and plans to spend an additional roughly \$3.5 million to expand the capacity of the pipelines to 95,000 barrels per day in order to meet the needs of the previously announced expansion of Holly Corp.'s Navajo Refinery. In return, Holly Corp. agreed to a 15-year minimum annual volume commitment of 72,000 barrels per day. We anticipate the acquisition will add \$10 million in annual EBITDA. Overall, Holly Energy Partners will benefit from long-term demand growth in their core markets, and the recent acquisition provides visible near-term cash flow growth.

Our price target for Holly is **\$51.00**, based on the valuation metrics shown below.

HEP Valuation Summary	
DDM @ 8%	\$ 56.44
Yield Spread @ 150 bps	\$ 45.91
Average	\$ 51.18

Inergy, L.P.
(NRGY/\$32.00/Outperform)

Inergy, L.P. is a master limited partnership that operates a growing retail and wholesale propane marketing and distribution business. The retail business includes the retail marketing, sale, and distribution of propane to residential commercial, industrial, and agricultural customers. Inergy serves approximately 600,000 retail customers from 280 customer service centers throughout the eastern half of the United States. Inergy also operates a growing supply logistics, transportation and wholesale marketing business that serves independent dealers and multi-state marketers in 35 states and Canada.

The acquisition in December 2004 of Star Gas Propane (the propane operating division of Star Gas Partners) nearly doubled the partnership, both in terms of retail volumes and EBITDA. In addition, Inergy has a wholesale business that reduces exposure to price and volume volatility, while also providing management with market intelligence and acquisition opportunities. Overall, Inergy has done a great job integrating recent acquisitions (Star Gas, Moulton Gas, and Northwest Propane, as well as some smaller acquisitions), and we believe the partnership will continue to make acquisitions that add meaningful volumes and cash flows going forward. Likewise, the propane market still has ample room for further consolidation with the top 10 propane retailers controlling less than 40% of the market. In July 2005, Inergy announced the acquisition of the Stagecoach natural gas storage facility in New York. This acquisition will help diversify the partnership's operations (and cash flows) and should add \$20 million in EBITDA in fiscal 2006 and up to \$45 million in 2008 when the expansion of the facility is complete.

Our price target for Inergy is **\$36.00**, based on the valuation metrics shown below.

NRGY Valuation Summary	
DDM @ 9%	\$ 38.46
Yield Spread @ 200 bps	\$ 33.60
Average	\$ 36.03

K-Sea Transportation Partners L.P.
(KSP/\$34.91/Outperform)

K-Sea Transportation Partners L.P., based in Staten Island, New York, is a master limited partnership that provides marine transportation, distribution, and logistics services in the northeastern United States and the Gulf of Mexico. The partnership's fleet includes 42 tank barges, two tankers, and 25 tugboats that serve a wide range of customers, including major oil companies, oil traders, and refiners. Total fleet capacity is more than two million barrels, which is the third largest ocean-going tank barge fleet in the U.S.

Industry trends remain excellent in the coastwise trade market with both utilization and dayrates moving higher. K-Sea continues to be active in expanding its fleet through either newbuilds or acquisitions. In December 2004, K-Sea acquired a fleet of ten tanker barges and seven tugboats from

Bay Gulf Trading for \$21 million, which should add approximately \$2.3 million annually in EBITDA. The Bay Gulf assets will come online during the fourth quarter and ultimately drive higher distributions in 2006. Additionally, K-Sea has announced fleet expansion projects that should be completed over the next seven to nine months. In conclusion, K-Sea is well positioned to grow distributions meaningfully in 2006 and beyond as additional vessels from both acquisitions and expansion projects come online and contribute to cash flows.

Our price target for K-Sea is **\$41.00**, based on the valuation metrics shown below.

KSP Valuation Summary	
DDM @ 9%	\$ 43.38
Yield Spread @ 200 bps	\$ 38.40
Average	\$ 40.89

**Kinder Morgan
Energy Partners, L.P.
(KMP/\$52.79/
Market Perform)**

Kinder Morgan Energy Partners, L.P. is the largest Master Limited Partnership in the U.S. Kinder Morgan owns or operates a diversified set of strategically located midstream assets that consist of more than 25,000 miles of pipelines and over 70 terminals. Its pipelines transport more than two million barrels per day of gasoline and other petroleum products and up to 7.8 billion cubic feet per day of natural gas. Its terminals handle over 55 million tons of coal and other dry-bulk materials annually and have a liquids storage capacity of approximately 55 million barrels for petroleum products and chemicals. Kinder Morgan is also the leading provider in the U.S. of CO₂, which is used in enhanced oil recovery projects.

The natural gas segment continues to see improved margins on the Texas Intrastate Pipeline system and solid growth from the recently acquired TransColorado pipeline. The products pipeline segment should benefit from stronger gasoline and NGL volumes. The CO₂ segment is poised for excellent growth with management planning to drill over 100 horizontal wells in 2005 and plans to extend the program well into 2006 with its joint interest owners. The terminal segment should benefit from strength through the Mississippi river and Houston Ship Channel terminals. In addition, strong coal, petcoke, and cement volumes are driving meaningful growth across the bulk terminal business. Management also continues to find accretive acquisitions at very attractive prices, thus avoiding the industry trend lately of paying increasingly higher multiples for acquisitions. Overall, while we believe in the partnership's long-term ability to grow distributions, we remain concerned about the potential impact of its pending rate case in the near-term.

**Magellan Midstream
Partners L.P.
(MMP/\$33.41/Strong Buy)**

Magellan Midstream Partners L.P. is a publicly traded master limited partnership formed to own, operate, and acquire a diversified portfolio of energy assets. The partnership began trading on the New York Stock Exchange in February 2001 as Williams Energy Partners L.P. under the ticker symbol WEG. Effective September 1, 2003, the partnership changed its name to Magellan Midstream Partners L.P. and began trading under the ticker symbol MMP. Magellan's main business is the transportation, storage, and distribution of refined petroleum products and, to a much lesser extent, ammonia.

Magellan continues to target strategic acquisitions and internal growth projects. In October 2004, the partnership purchased a 2,000-mile refined products pipeline system from affiliates of Shell (RD/\$64.61). The assets

comprise four refined petroleum products pipeline systems with related terminalling and storage facilities that have a combined storage capacity of approximately 5.8 million barrels. The acquisition provided the partnership with its own pipeline connection to the vital Gulf Coast refining center and direct access to growing markets such as Denver, Dallas, and El Paso. These assets have created additional ancillary growth opportunities that will likely materialize over the next year. Overall, the Shell assets will continue to drive higher cash flows as evidenced by management's most recent distribution increase (16th consecutive), which puts the company on track to easily achieve its target 10% year-over-year distribution growth and even possibly exceed it.

Our price target for Magellan is **\$42.00**, based on the valuation metrics shown below.

MMP Valuation Summary	
DDM @ 8%	\$ 46.60
Yield Spread @ 150 bps	\$ 37.88
Average	\$ 42.24

**Martin Midstream
Partners, L.P.
(MMLP/\$32.53/Outperform)**

Martin Midstream, L.P. is a diversified master limited partnership that operates primarily in the Gulf Coast region of the United States. Martin Midstream operates a unique set of integrated assets that provide midstream logistical services, such as marine transportation, terminalling, and distribution, to producers and suppliers of hydrocarbon products and by-products. The partnership also manufactures and markets sulfur-based fertilizers and related products. Martin Midstream was recently formed by Martin Resource Management, a privately held company that still owns approximately 50% of the limited partner interest.

The past few quarters have seen solid results out of the LPG (liquefied petroleum gas) distribution and terminal segments, which have more than offset weakness in CF Martin Sulphur (49.5% limited partnership interest). Going forward, the recent acquisition of Bay Sulfur Company and the announced \$14 million construction of a sulfur processing facility at its Port Neches terminal provide Martin with increased flexibility and growth. Specifically, both of these facilities will process molten sulfur into pellets, which can then be transported to the international market. Recall, the partnership has been negatively impacted by an oversupply of sulfur in the domestic market with no other outlet for the product. Therefore, the Bay Sulfur acquisition and the expansion plans at Port Neches will allow Martin to participate in the global sulfur market. Overall, we believe that the combination of both acquisitions and organic growth opportunities provide Martin with a rapidly improving outlook and visible cash flow growth.

Our price target for Martin is **\$36.00**, based on the valuation metrics shown below.

MMLP Valuation Summary	
DDM @ 10%	\$ 36.02
Yield Spread @ 250 bps	\$ 35.56
Average	\$ 35.79

**Pacific Energy Partners L.P.
(PPX/\$33.57/Outperform)**

Pacific Energy Partners, a master limited partnership, is engaged in the business of gathering, transporting, storing, and distributing crude oil and other related products in California and the Rocky Mountain region. Pacific Energy Partners generates revenues primarily by transporting crude oil on its pipelines and by leasing capacity in its storage facilities. Pacific Energy Partners also buys, blends, and sells crude oil, activities that are complementary to its pipeline transportation business.

Pacific is well positioned, going forward, due to a healthy backlog of organic projects, as well as strategic acquisitions. Most recently, the partnership purchased terminal and pipeline assets from Valero (VLI/\$59.80). The assets consist of West Coast terminals in San Francisco with 4.1 million barrels of storage capacity, East Coast terminals in Pennsylvania and New Jersey with combined storage capacity of 3.2 million barrels, and a West Pipeline system in the Rocky Mountains that consists of 550 miles of refined products pipeline and 1.7 million barrels of storage capacity. The assets are expected to contribute \$42 million in annual EBITDA and management has identified several growth initiatives it can undertake over the next three years to enhance profitability further. In addition, Pacific has a host of internal organic projects including: 1) tank expansions along the integrated pipeline corridor from Edmonton south to the Rockies that will help move synthetic crude into the U.S., 2) the Pier 400 deepwater import terminal project that is estimated to be completed in 2007, 3) tank conversions within Pacific Terminals to allow them to provide more flexible crude oil service, 4) the Edmonton Initiation Station, and 5) Frontier and Rocky Mountains Phase II expansions. Overall, we are very optimistic about the growth prospects for Pacific based on a solid backlog of organic projects and the recent acquisition of the Valero assets.

Our price target for Pacific is **\$39.00**, based on the valuation metrics shown below.

PPX Valuation Summary	
DDM @ 8%	\$ 39.50
Yield Spread @ 150 bps	\$ 39.48
Average	\$ 39.49

**Star Gas Partners, L.P.
(SGU/\$2.86/Underperform)**

Star Gas Partners, L.P. is a home energy distributor and service provider specializing in heating oil. In October 2004, Star suspended distributions to its common units due to a substantial decline in cash flows and the inability to meet borrowing covenants on its existing credit facilities. To improve its liquidity, the partnership sold its propane distribution business to Inergy, L.P. in December 2004 for \$475 million and used \$311 million of the net proceeds to repurchase its senior secured notes and to repay other debt, except for the 10 1/4% senior notes, which are still outstanding. The partnership has incurred significant costs during this process, which include bridge financing fees, bank fees, debt redemption fees, and legal expenses incurred related to inquiries from the NYSE and the SEC regarding several class action lawsuits, as well as legal and professional fees associated with exploring several refinancing alternatives.

In the most recent quarter, Star Gas had a few positive developments such as improving attrition levels and a lower cost structure. However, we were given no details regarding management's plans for the remaining proceeds from the sale of the propane business in December. The net excess proceeds from the propane sale at the start of the quarter were approximately \$146.3 million

with remaining excess proceeds at the end of the quarter of \$93.2 million. Additionally, only \$1.1 million of the \$53.1 million spent during the quarter was utilized toward debt repayment, \$200,000 was cap ex, and the remaining \$51.8 million was used toward an investment in working capital (most likely inventory). These actions fly in the face of conventional wisdom when heating oil companies generally work down their working capital after the winter season. Overall, despite some operational improvements, the uncertainties still far outweigh the positives.

**Suburban Propane
Partners, L.P.
(SPH/\$35.51/Outperform)**

Suburban Propane Partners, L.P. is a publicly traded limited partnership principally engaged in the retail and wholesale marketing of propane, related appliances, and services. Suburban is the third largest retail marketer of propane in the United States, serving approximately 1,000,000 active residential, commercial, industrial, and agricultural customers from approximately 370 customer service centers in 30 states in the east and west coast regions of the United States.

Similar to the other propane partnerships, Suburban dealt with a tough operating environment last winter. Specifically, the combination of a 4% warmer than normal winter and soaring commodity prices created widespread customer conservation that resulted in nearly 10% lower propane gallons sold year-over-year. In addition, cash flows were negatively impacted by \$15 million due to a price cap program in their heating oil business. However, we are confident that management has taken the necessary steps to avoid a repeat scenario. Going forward, management will hedge all business under their price cap program, limit deliveries from September 1 through April 30, and restrict customer sign-up period from June 1 through July 31. Overall, Suburban should benefit from organic growth opportunities, acquisitions, and strategic divestitures of non-core businesses.

Our price target for Suburban is **\$38.00**, based on the valuation metrics shown below.

SPH Valuation Summary	
DDM @ 10%	\$ 39.45
Yield Spread @ 300 bps	\$ 35.86
Average	\$ 37.65

**Teekay LNG Partners L.P.
(TGP/\$29.70/Outperform)**

Teekay LNG Partners L.P. is an international provider of LNG and crude oil marine transportation services. The partnership was formed in November 2004 by Teekay Shipping Corporation (TK/\$47.13), the world's largest owner and operator of medium-sized crude oil tankers, to expand its operations in the LNG shipping sector. Teekay LNG Partners' current fleet consists of four LNG tankers and five Suezmax crude oil tankers. The partnership also has three LNG vessels under construction that are expected to be delivered between 4Q06 and 2Q07.

The LNG shipping industry is expected to grow rapidly over the next five years. In fact, industry sources believe that the worldwide fleet of LNG tankers must expand to ~ 365 vessels by 2010. Currently, there are only 180 LNG tankers worldwide and another 108 newbuilds on order for delivery through 2009, which means an additional 77 vessels must be added to the fleet by 2010 to meet demand. Teekay is well positioned to take advantage of the strong industry fundamentals given its relationships with key LNG

shippers and the strength of its parent company, Teekay Shipping Corporation. Teekay's LNG newbuilds are all backed by 20-year contracts, and each LNG newbuild will add roughly \$4 to \$5.5 million (\$0.17 per unit) to distributable cash flow. Overall, Teekay has very visible cash flows with substantial long-term growth opportunities based on solid global LNG fundamentals.

Our price target for Teekay LNG is **\$33.00**, based on the valuation metrics shown below.

TGP Valuation Summary	
DDM @ 8%	\$ 36.49
Yield Spread @ 150 bps	\$ 30.09
Average	\$ 33.29

TEPPCO Partners, L.P.
(TPP/\$42.25/Outperform)

TEPPCO Partners, L.P. is a publicly traded master limited partnership. TEPPCO owns and operates one of the largest common carrier pipelines of refined petroleum products and liquefied petroleum gases in the United States; owns and operates petrochemical and natural gas liquid pipelines; is engaged in crude oil transportation, storage, gathering, and marketing; owns and operates natural gas gathering systems; and owns 50% interests in Seaway Crude Pipeline Company, Centennial Pipeline LLC, and Mont Belvieu Storage Partners, L.P., and an undivided ownership interest in the Basin Pipeline. Texas Eastern Products Pipeline Company, LLC, a wholly owned subsidiary of Enterprise GP Holdings L.P., is the general partner of TEPPCO Partners, L.P.

The upstream segment is experiencing increasing volumes on the Seaway Crude pipeline. In the most recent quarter, volumes increased from 232,000 bbl/d to 248,000 bbl/d despite refinery problems in the mid-continent region. Going forward, the segment will benefit from recent crude oil asset acquisitions (Cushing terminals and Mexia-to-Houston pipeline), which started adding to cash flows in the June quarter. The midstream segment is posting significantly higher year-over-year volumes on its natural gas gathering systems. Specifically, the Jonah gathering system increased volumes by 17% year-over-year, averaging 1.1 Bcf/d during the March quarter. TEPPCO is now in Stage 4 of the Jonah expansion, which when completed in the fourth quarter will increase capacity to 1.5 Bcf/d. Val Verde volumes also continue to improve, and the partnership expects to post EBITDA growth of roughly 10% for the year due to the fact that it is now connected via Red Cedar to a system in Colorado, which will lead to increased volumes. Finally, the downstream segment has the potential to post solid year-over-year growth, especially in LPG volumes, if we realize a more normal winter relative to the abnormally warm winter the prior year. Overall, the partnership should continue to generate strong cash flows due to internal growth projects and acquisitions.

Our price target for TEPPCO is **\$48.00**, based on the valuation metrics shown below.

TPP Valuation Summary	
DDM @ 9%	\$ 50.04
Yield Spread @ 200 bps	\$ 46.56
Average	\$ 48.30

**U.S. Shipping Partners L.P.
(USS/\$27.00/Outperform)**

U.S. Shipping Partners L.P. is a master limited partnership that provides long-haul marine transportation services in the U.S. coastwise trade. U.S. Shipping primarily transports clean refined products such as gasoline, diesel fuel, jet fuel, heating oil, and lubricants. The partnership's fleet consists of six integrated tug barge units (ITBs) and two parcel tankers with aggregate capacity of approximately 2.8 million barrels.

U.S. Shipping has performed well due primarily to higher average time charter equivalent (TCE) rates. In the first quarter, the average TCE of \$37,650 was 10% higher than the prior year quarter average of \$34,238. The spot market has remained strong with ITBs receiving rates of \$55,000 per day versus \$42,000 spot average in the first quarter. In the near-term, the partnership will place two of its ITBs in drydock during September and November, respectively. Each vessel is expected to be in the shipyard for 50 days at a cost of \$6 million per vessel. More importantly, U.S. expects delivery of its first articulated tug barge unit (ATB) in April 2006, which will provide the partnership with an entry into the short-haul market. The partnership has options for three additional units as well. Going forward, the partnership is looking at several growth opportunities including the acquisition of offshore and inland tug barge units, entering the terminal market, and establishing a presence in the Great Lakes region.

Our price target for U.S. Shipping is **\$29.50**, based on the valuation metrics shown below.

USS Valuation Summary	
DDM @ 9%	\$ 30.24
Yield Spread @ 200 bps	\$ 28.80
Average	\$ 29.52

Conclusion

Over the next decade, billions of dollars worth of energy infrastructure will be needed to support the rapid growth of LNG (liquefied natural gas) imports, future Canadian oil sands production, and record drilling activity both onshore U.S. and offshore Gulf of Mexico. This massive infrastructure build-out will require more pipelines, storage terminals, processing & treating capabilities, and tankers, which bodes well for the midstream energy partnerships.

We expect the midstream/pipeline MLPs to remain active in the acquisition arena as the major oil and gas companies and utilities continue to divest non-core assets. In addition, the propane market remains extremely fragmented with roughly 60% of the market controlled by over 5,000 independent retailers, which provides plenty of acquisition opportunities for the propane MLPs. That said, the acquisition market is becoming increasingly competitive and partnerships seem willing to pay higher and higher multiples for assets that will have the obvious effect of reducing the accretiveness of those acquisitions. In the past few months, we have seen partnerships pay multiples well north of 10x EBITDA for assets in some auction formats. Therefore, we continue to focus on those partnerships with a healthy backlog of organic projects that are not forced to make acquisitions to drive future distribution growth.

Thus far in 2005, the Fed Funds rate has increased from 2.25% to 3.25%, but the yield on the 10-year has actually decreased from 4.22% to 4.17%. During this same timeframe, partnerships in the index have increased distributions by approximately 5.3% on average and have actually showed positive year-to-date total returns of 14.5% through June 30. However, investors remain concerned about the impact potentially higher interest rates will have on the MLP universe. As mentioned earlier in the report, distribution growth will help offset higher interest rates. Historically, those partnerships with solid distribution growth have outperformed the market even in the face of rapidly rising interest rates. Overall, we believe MLPs are an excellent investment vehicle for investors providing current income and steady growth as well as diversification benefits due to their low correlation with other asset classes.

MLP Focus List

In conjunction with this industry report, we are establishing a MLP Focus List that will represent a model portfolio of our top picks in the MLP universe similar to what our Real Estate team has done with the REIT Priority List. We will closely monitor this list and track its performance relative to an established benchmark. The following names will be included in the inaugural MLP Focus List: Crosstex Energy L.P. (XTEX), Enterprise Products Partners L.P. (EPD), Energy Transfer Partners L.P. (ETP), K-Sea Transportation Partners L.P. (KSP), and Magellan Midstream Partners L.P. (MMP). We expect all of these partnerships to demonstrate solid distribution growth and compare favorably to their peer group on most valuation metrics.

MLP Focus List							
MLP	Ticker	Rating	Target Price	Current Price	Current Yield	Distribution Estimates	
						2005E	2006E
Crosstex Energy L.P.	XTEX	Strong Buy	\$52.00	\$41.45	4.34%	\$1.94	\$2.22
Enterprise Products Partners L.P.	EPD	Strong Buy	\$37.00	\$27.51	5.96%	\$1.70	\$1.82
Energy Transfer Partners L.P.	ETP	Outperform	\$43.50	\$37.17	5.25%	\$1.89	\$2.10
K-Sea Transportation Partners L.P.	KSP	Outperform	\$41.00	\$35.35	6.11%	\$2.20	\$2.40
Magellan Midstream Partners L.P.	MMP	Strong Buy	\$42.00	\$33.69	5.70%	\$1.98	\$2.18

Source: Reuters, Raymond James & Associates

Public companies mentioned in this report.

Company Name	Ticker	Priced as of 07/14/05	RJ&A Rating (if Applicable)
Buckeye Partners LP	BPL	\$46.82	
Enbridge Energy Partners, LP	EEP	\$54.80	
Kaneb Pipe Line Partners LP	KPP	\$61.46	
Northern Border Partners, LP	NBP	\$51.03	
Plains All American Pipeline, LP	PAA	\$46.00	
TC Pipelines LP	TCLP	\$34.85	

Important Investor Disclosures

Stock Ratings: Within our four-tiered rating system, Strong Buy (SB1) means that the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P 500 over the next six months; *for higher-yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.* Outperform (MO2) means the stock is expected to appreciate and outperform the S&P 500 over the next 12 months; *for higher-yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12 months.* Market Perform (MP3) means the stock is expected to perform generally in line with the S&P 500 over the next 12 months and is potentially a source of funds for more highly rated securities; and Underperform (MU4) means the stock is expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

Out of approximately 603 stocks in the Raymond James coverage universe, 54% have Strong Buy or Outperform ratings (Buy), 38% are rated Market Perform (Hold) and 8% are rated Underperform (Sell). Within those rating categories, 34% of the Strong Buy or Outperform (Buy) rated companies either currently are or have been Raymond James Investment Banking clients within the past three years; 21% of the Market Perform (Hold) rated companies are or have been clients and 11% of the Underperform (Sell) rated companies are or have been clients.

Analyst Holdings and Compensation: Equity analysts and their staffs at Raymond James are compensated based on a salary and bonus system. Several factors enter into the bonus determination including quality and performance of research product, the analyst's success in rating stocks versus an industry index, and support effectiveness to trading and the retail and institutional sales forces. Other factors may include but are not limited to: overall ratings from internal (other than investment banking) or external parties and the general productivity and revenue generated in covered stocks.

Raymond James Relationships: RJA expects to receive or intends to seek compensation for investment banking services from the subject companies in the next three months.

Company Name	Disclosure
Crosstex Energy Inc.	Raymond James & Associates makes a NASDAQ market in shares of TXTI. Raymond James & Associates co-managed an initial public offering of Crosstex Energy Inc. shares in January 2004.
Crosstex Energy L.P.	Raymond James & Associates co-managed an initial public offering of XTEX shares in December 2002 and a follow-on offering of XTEX shares in September 2003. Raymond James & Associates makes a NASDAQ market in shares of XTEX.
Energy Transfer Partners, L.P.	Raymond James & Associates co-managed a follow-on offering of ETP units in January 2004.
Enterprise Products Partners L.P.	Raymond James & Associates co-managed follow-on offerings of EPD units in October 2002, January 2003, and May 2003. Raymond James & Associates co-managed a follow-on offering of 15.0 million EPD units at \$27.05 per unit in February 2005.
Hiland Partners, L.P.	Raymond James & Associates makes a NASDAQ market in shares of HLND. Raymond James & Associates co-managed an initial public offering of 2.0 million HLND shares at \$22.50 per share in February 2005.
Holly Energy Partners, L.P.	Raymond James & Associates co-managed an initial public offering of HEP shares in July 2004.
Inergy, L.P.	Raymond James & Associates received non-securities-related compensation from NRGY within the past 12 months. Raymond James & Associates makes a NASDAQ market in shares of NRGY. Raymond James & Associates co-managed a follow-on offering of NRGY shares in January 2004 and a follow-on offering of 5.1 million NRGY shares at \$28.80 per share in December 2004.
K-Sea Transportation Partners L.P.	Raymond James & Associates co-managed an initial public offering of KSP shares in January 2004.
Martin Midstream Partners, L.P.	Raymond James & Associates makes a NASDAQ market in shares of MMLP. Raymond James & Associates lead-managed an initial public offering of MMLP shares in November 2002 and a follow-on offering of MMLP shares in January 2004. Raymond James & Associates also provided investment advisory services to the company in November 2002.
Suburban Propane Partners, L.P.	Raymond James & Associates co-managed follow-on offerings of SPH units in June 2003 and December 2003.
Teekay LNG Partners	Raymond James & Associates co-managed an initial public offering of 6.9 million TGP shares at \$22.00 per share in May 2005.
TEPPCO Partners, LP	Raymond James & Associates co-managed a follow-on offering of TPP shares in September 2002.
U.S. Shipping Partners L.P.	Raymond James & Associates co-managed an initial public offering of 6.0 million USS units at \$22.25 per unit in October 2004.

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Investors should consider this report as only a single factor in making their investment decision.

The views expressed in this report accurately reflect the personal views of the analyst(s) covering the subject securities. No part of said person's compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Additional information is available on request.

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Raymond James Investment Ratings

- 1. Strong Buy** Expected to appreciate and produce a total return of at least 15% and outperform the S&P 500 over the next six months. *For higher-yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next twelve months.*
- 2. Outperform** Expected to appreciate and outperform the S&P 500 over the next twelve months. *For higher-yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next twelve months.*
- 3. Market Perform** Expected to perform generally in line with the S&P 500 over the next twelve months and is potentially a source of funds for more highly rated securities.
- 4. Underperform** Expected to underperform the S&P 500 or its sector over the next six to twelve months and should be sold.

Suitability ratings are not assigned to stocks rated Underperform. Projected 12-month price targets are assigned only to stocks rated Strong Buy or Outperform.

Suitability Categories

- Total Return (TR)** More conservative investments with dividend yields of 2.5% or more and favorable appreciation prospects.
- Growth (G)** Quality companies with well-above-average appreciation potential, quarterly earnings consistency, and possibly a small dividend.
- Aggressive Growth (AG)** Companies with rapid growth potential and accompanying higher risks.
- Cyclical (C)** Companies with fundamentals that are unusually sensitive to changes in major economic trends.
- Speculative (S)** Small companies with high risks including variable earnings, financial and competitive factors as well as liquidity issues.
- Venture Risk (VR)** Newer companies with a short, unprofitable operating history, limited revenues, and a much higher-than-normal risk associated with success.